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Report On Business®

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Economic Growth Slows Again

Index Dips to 54.8%

Export Orders Improve

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

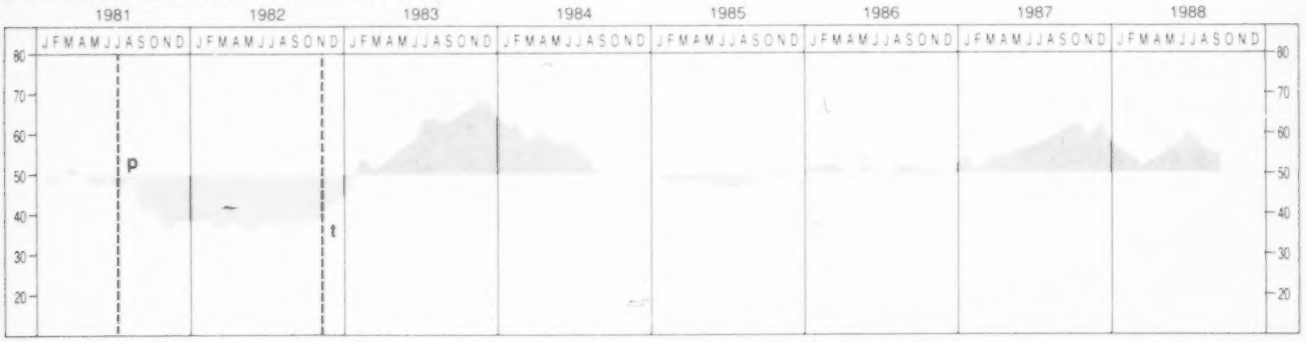
September Report

The economy continued to grow in September but at the slowest rate in six months, say the nation's purchasing executives in their latest ***Report on Business.***

Production continued to expand but a slower pace than in the previous five months. The rate of growth in **New Orders** dropped also, for the third consecutive month. New **Export Orders,** a key factor in recent economic growth, grew at a higher rate than in August, but considerably lower than in previous months. Of those members who export, 27% reported higher export orders, up from 20% in August but lower than the 37.8% average for the previous seven months. Lower export orders were reported by 6%, which is an increase from 4% in August. **Vendor Deliveries** continued slower but for the third consecutive month the rate of slowing lessened. **Employment** increased for the fourth consecutive month, but very little. **Inventories** declined in September for the second consecutive month. **Prices** increased for the 26th consecutive month but at the lowest rate of growth since May 1987. And, for only the second month in the last 30 months, corrugated shipping containers, historically an indicator of economic activity, was not reported higher priced.

The Report was issued by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "Virtually all indicators confirm a decided slowing in the growth of the economy. Nonetheless, the high level of New Orders signals continued growth in October. Additionally, the improvement in the inflation rate suggests a healthy beginning for the fourth quarter."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

January	57.4	June	59.3
February	54.9	July	59.0
March	53.3	August	56.2
April	54.9	September	54.8
May	55.1		

The ***Purchasing Managers' Index*** dipped to 54.8% in September from 56.2% in August, the third consecutive month to register a decline. Although the 54.8% is the lowest index since March (53.3%) it also marks the 26th consecutive month this leading indicator has exceeded 50%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. Bretz said, "The 54.8% reported in September brings the average for the first three quarters of 1988 to 56.1%. Past experience indicates that if this average were to continue for the fourth quarter, it would be consistent with real GNP growth of about 3.7%, unchanged from the past two months."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

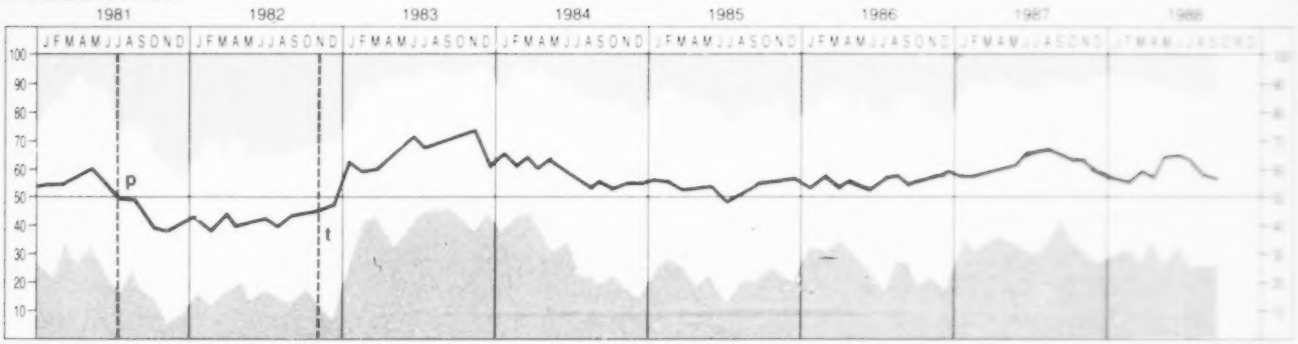
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries)
- the diffusion index

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak (**p** — July 1981) and trough (**t** — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

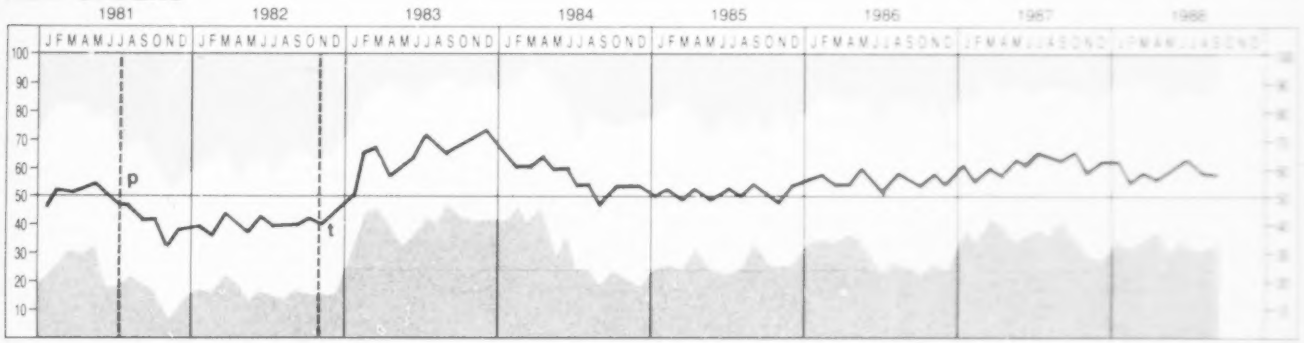
PRODUCTION



Production grew in September for the 26th consecutive month. Nevertheless, the rate of growth slowed for the third consecutive month and at 56.0%, the index is the lowest since March 1988 (54.4%).

Production	%Better	%Same	%Worse	Net	Index
September	26	62	12	+14	56.0
August	26	60	14	+12	56.2
July	25	62	13	+12	60.7
June	35	53	12	+23	63.1

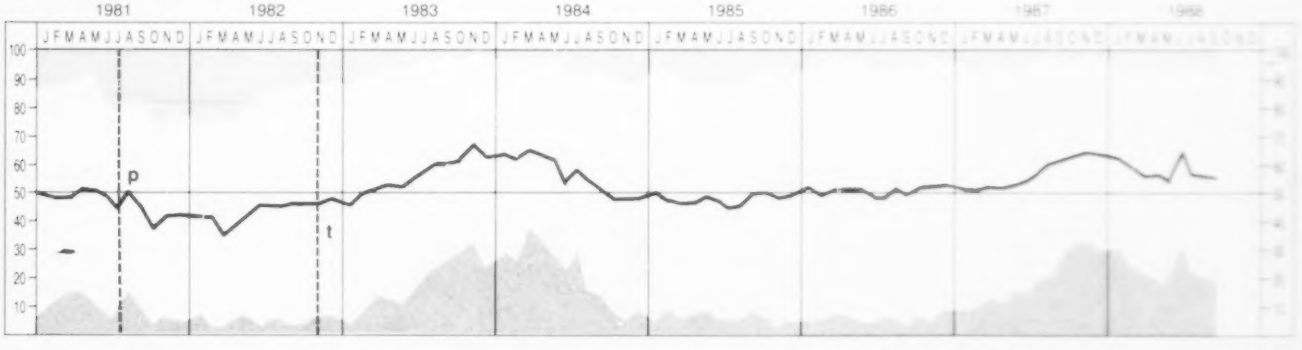
NEW ORDERS



New Orders expanded in September for the 40th consecutive month, after considering normal seasonal variations. Although the rate of growth slowed for the third consecutive month, it is at a high enough level to suggest continued growth in production in October.

New Orders	%Better	%Same	%Worse	Net	Index
September	34	55	11	+23	58.4
August	31	54	15	+16	59.9
July	31	57	12	+19	60.7
June	34	54	12	+22	62.7

VENDOR DELIVERIES



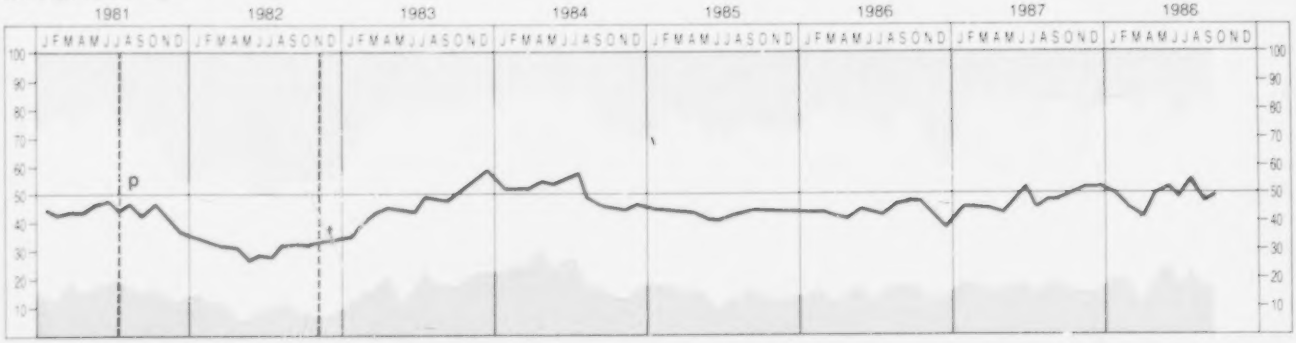
Vendor Deliveries were slower for the 24th consecutive month. Although slowing deliveries indicate a growing economy, the rate of slowing in deliveries has lessened for three consecutive months and at 55.0%, the September index is the lowest since May 1987 (53.5%).

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
September	19	73	8	+11	55.0
August	20	73	7	+13	56.1
July	21	75	4	+17	58.6
June	32	63	5	+27	63.5

IN SHORT SUPPLY:

— Aluminum (12th consecutive month), copper (1st time since May 1988), nickel (6th time in 7 months; used heavily in making stainless steel, plating metals and batteries), stainless steel (9th consecutive month), castings, bleached paperboard (3rd consecutive month), polyethylene (5th consecutive month; used heavily in making packaging materials and paper coatings), plastic resins (5th consecutive month), acrylic acid (2nd time in 3 months, used in manufacturing plastics), caustic soda, soda ash (16th consecutive month; used heavily in paper-making, petroleum refining and soap-making), ethylene (6th consecutive month; some easing in tightness reported; used heavily in making ethylene oxide, plastic resins and glycols), ethylene oxide (7th consecutive month), antifreeze (2nd consecutive month). NOTE: three major ethylene and ethylene-derivative plants previously closed because of fires, are now back in production. Phenol (6th consecutive month; used heavily in making phenolic resins), methyl ethyl ketone (MEK) (6th consecutive month; used heavily as a chemical solvent in surface coatings and in making resins), titanium dioxide (14th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), bearings (2nd consecutive month), sugar.

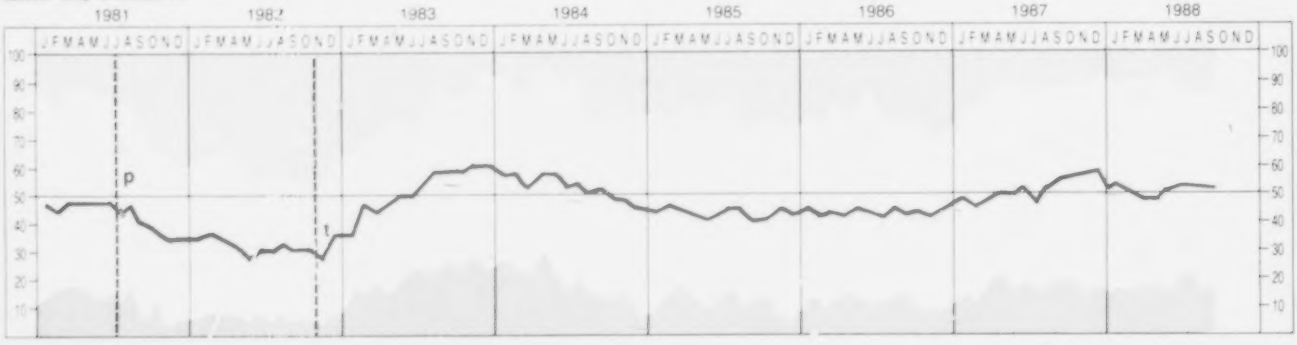
INVENTORIES



Inventories declined slightly in September, for the second consecutive month, after taking normal seasonal variations into consideration. Nevertheless, the index at 49.6% is sharply lower than in July (55.1%) and reflects the resolve of purchasers to balance slowing production with lower inventories.

Inventories	%Higher	%Same	%Lower	Net	Index
September	20	61	19	+ 1	49.6
August	18	64	18	0	48.6
July	22	60	18	+ 4	55.1
June	18	60	22	- 4	48.5

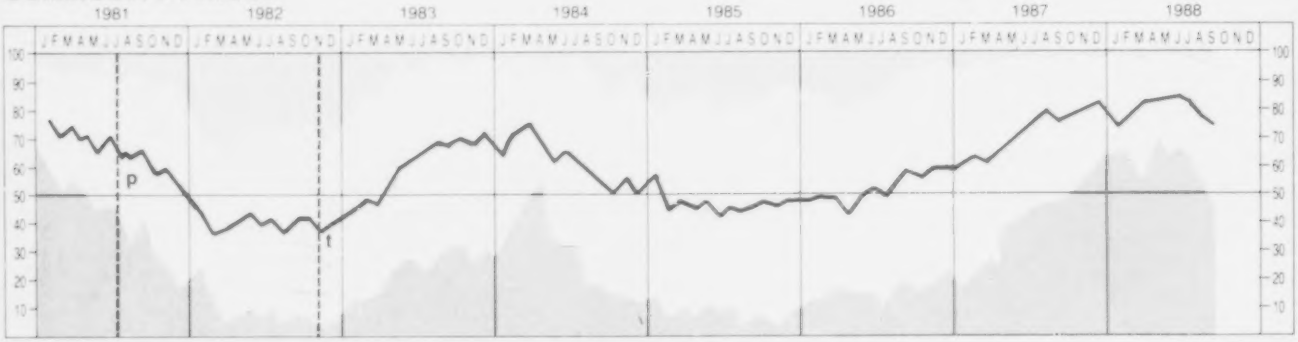
EMPLOYMENT



September marked the fourth consecutive month Employment has increased, after considering normal seasonal variations. However, at 50.2%, the index is the lowest since June (50.1%) and trending lower, mirroring the slower growth in Production.

Employment	%Higher	%Same	%Lower	Net	Index
September	14	70	16	- 2	50.2
August	16	68	16	0	50.7
July	19	69	12	+ 7	51.7
June	20	64	16	+ 4	50.1

COMMODITY PRICES



Although Prices increased in September for the 26th consecutive month, the rate of increase slowed significantly. The glimmer of hope noted in the August Report that the rate of price increases was declining is closer to reality. The index fell to 72.2% in September and is the lowest since May 1987 (67.8%), a welcome sign of abating inflation.

Prices	%Higher	%Same	%Lower	Net	Index
September	47	49	4	+ 43	72.2
August	55	40	5	+ 50	78.7
July	63	35	2	+ 61	81.1
June	66	32	2	+ 64	82.4

UP IN PRICE:

Aluminum (20th consecutive month; some reports of price decreases), aluminum products, copper (17th time in 19 months; some reports of price decreases), steel (24th time in 25 months), stainless steel (9th consecutive month), steel products (11th consecutive month), zinc (8th time in nine months; used heavily in metal alloys and as a protective coating for metals), castings (2nd consecutive month), paperboard (used heavily in consumer products packaging), printing paper (18th time in 21 months), paper products (8th consecutive month), polyethylene (15th time in 16 months; used heavily in making packaging materials and paper coatings), plastic resins (15th time in 16 months), plastic products (16th time in 17 months), fiber glass, caustic soda (22nd consecutive month; used heavily in paper-making, petroleum refining and soap-making), ethylene (13th time in 14 months; used heavily in making ethylene oxide and plastic resins), ethylene derivatives (7th time in 8 months), methanol (9th time in 10 months; used heavily as a solvent and in synthesizing other chemicals), sulfuric acid (used heavily in making fertilizers, dyes, adhesives and other acids), titanium dioxide (5th time in 6 months; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), grain related foods (2nd consecutive month), corn starch (2nd consecutive month), rice, apples, vegetable oils (2nd consecutive month; used heavily in processed foods), bearings (3rd consecutive month), fuel oil (some reports of price decreases), natural gas, vinyl fabric.

DOWN IN PRICE:

Zinc (reported up in price in 7 of past 8 months; used heavily in metal alloys and as a protective coating for metals).

BUYING POLICY

Lead times for Capital Expenditures increased, with 60% of members reporting lead times in the significant 6 months and longer category. The 60% is up sharply from 55% in August and the most since September 1986 (also 60%). Lead times for Production Materials also lengthened somewhat. Purchasers reporting lead times of 90 days and longer reached 26% in September, up from 22% in August and the most since March (29%). Lead times for Maintenance, Repair and Operating (MRO) Supplies shortened slightly as the number of members reporting lead times of 90 days or more declined to 2%, down from 4% in August.

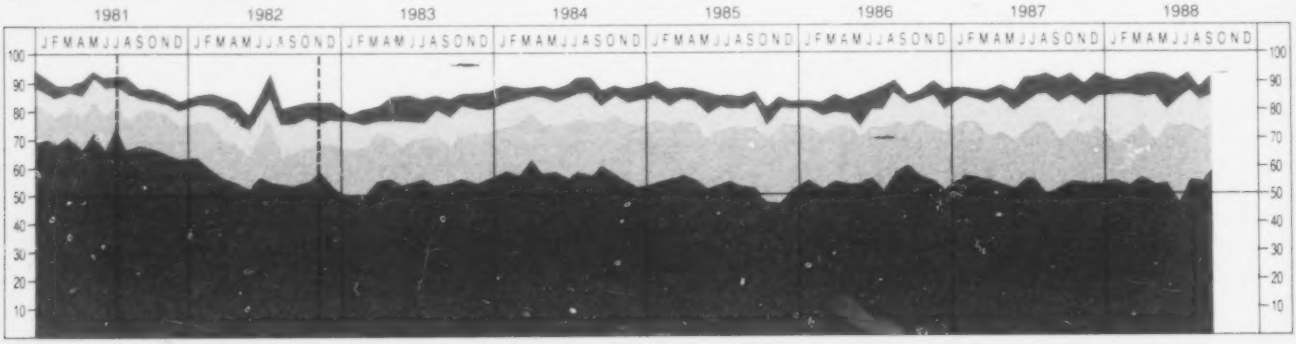
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
September	9	5	10	16	60
August	12	5	12	16	55
July	8	5	13	18	56
June	10	7	10	24	49

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
September	16	34	24	20	6
August	16	35	27	16	6
July	16	40	23	15	6
June	14	41	22	18	5

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
September	38	47	13	2	0
August	40	45	11	4	0
July	35	48	15	2	0
June	36	46	15	2	1

CAPITAL EXPENDITURES



Commodity Report
September, 1988

Nonferrous Metals
Prepared by the NAPM Nonferrous Metals Committee. Chair: Sharon Sinke, C.P.M., C.L. Frost, Inc., Grand Rapids, MI.

Nickel: The demand is still exceeding current supply; however it appears demand is decreasing, so price is dropping. The current price swing is from $6.10–$6.70/lb. Supply and demand for 1989 could be similar to 1988, with prices in the range of $5.00–$6.00/lb. With current inventories down and no new production in sight, even with imports from Russia, the global deficit of nickel is likely to continue.

Magnesium: The shipments of magnesium were up 10% in the first half of 1988 compared to the first half of 1987. Production was up 5% during the same period. Inventories continue their long downward trend from the high in September, 1986. The June 30th inventory of all primary producers was 28,500 MT, representing only a 1.4 month supply.

Aluminum: The aluminum industry continues to be in an excellent position as prices remain high, customer inventories remain low and production is running at peak capacity. Pricing has continued to increase in the second quarter but at a slower rate. Prices are expected to remain high but should begin to stabilize in the fourth quarter. Extrusion prices have been running behind ingot increases; the industry is trying to rectify this situation. Demand, both U.S. and worldwide, remains strong due primarily to consumption growth, since industry figures do not reflect inventory increases. The largest U.S. market is packaging, followed by construction, transportation, automotive, electrical and consumer durables. The largest product form used is sheet, followed by ingot (used as ingot in final form as for castings), and extrusions. Primary production is running at full capacity both in the U.S. and in world industry. The U.S. primary production for the first half of 1988 exceeded the same period of 1987 by 21% and continues to increase. World primary production is also expanding due to restarts of smelters that had labor problems in Spain and Canada, and a 10% annual increased demand in China. Exports remain firm and up from 1987, especially in aluminum scrap, with the bulk acquired by Japan and Taiwan.

Textiles
Prepared by the NAPM Textile Committee. Chair: Gerry Korver, C.P.M., K-Products, Inc., Orange City, IA.

Cotton, Polyester, Greige Goods: Business remains strong in most areas. Prices for cotton, however, have shown very little change in recent weeks. The hurricane activity in the Gulf of Mexico is contributing to a "wait and see" attitude on production estimates. Harvesting started in mid to late September. Severe crop damage will certainly have an impact on future pricing. Polyester has seen several increases in 1988 and there is a possibility of another in late year. A factor is the tight supply of ethylene. The outlook in early 1989 shows continued increases as the ethylene industry struggles to make up the capacity shortage. Also included is an intentional recovery of raw material price increases which suppliers feel is past due. Rayon has seen several increases in 1988. There appears to be no stopping point to date, with rumored increases into early 1989. This will be a difficult market to negotiate in the next few months.

Nylon and Specialty Fabrics: Throughout 1988 there has been a tremendous demand for spandex and nylon. This is due primarily to increased use of spandex in outerwear fashions, hosiery, intimate apparel and swim wear active wear. DuPont announced an increase of 12% for 840–2240 denier lycra spandex. It is suspected that a 9% increase in this denier range will be announced in January, 1989. A 5% lycra increase is expected at the same time for all other denier sizes. All denier nylons were increased $.02/lb. by DuPont and Monsanto on March 1, 1988. BASAF raised nylon prices an average of $.15/lb. on April 1. A $.10/lb. increase is expected on nylon in the first quarter of 1989.

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The next issue of *REPORT ON BUSINESS* will be available November 7.